



# PERFORMANCE EVALUATION OF SELECT PUBLIC SECTOR UNDERTAKING IN ASSAM WITH SPECIAL REFERENCE TO AIDC AND AFC

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## ABSTRACT

The State Level Public Sector Enterprises (SLPEs) plays an integral role in the industrial development and economic growth of a state. The two state level public enterprises of Assam i.e. Assam Industrial Development Corporation (AIDC) and Assam Financial Corporation (AFC) are set up by the state government to meet the credit needs of the small, medium and large scale industries for the industrial development of the state. These two corporations have already engaged in this field since their inception but Assam is still considered as industrially backward state of the country. Therefore, the researcher has decided to analyse and evaluate the performances of both these two enterprises through this research paper. This research paper is based on the performance of the last 5 years made by both AIDC and AFC from 2008-2009 to 2012-2013. Information is collected through secondary data and they have been analyzed and judged by using trend analysis and financial ratios. The findings reveal that the financial performance is declining from last 5 years due to heavy losses, poor solvency and liquidity status.

**KEY WORDS:** Industrial development, SLPEs, AIDC and AFC, Financial performance.

## INTRODUCTION

Assam is famous for its unique natural and mineral resources. In spite of having huge development potential, the industrial sector in the state could not develop a satisfactory level due to various constraints faced by it. In the pre-independence period, Assam was one of the industrially developed states of the country but at present, Assam is amongst the industrially backward states in the country. The State Level Public Enterprises of Assam are not giving due emphasis on successful operations of management and administration as a result consequently the SLPEs are facing a lot of financial loss. The present research work is an attempt to analyse the performances of two State Level Public Enterprises of Assam namely Assam Industrial Development Corporation (AIDC) and Assam Financial Corporation (AFC) dedicated in the promotion of large, medium and small scale industries of Assam. Each of these corporations have different functional areas in which they are operating and hence their performance have been assessed in specific areas of their operations in order to know the major difficulties they face in enhancing their performances as a good number of industrial units in Assam are lying in non-operational stage.

### Assam Industrial Development Corporation (AIDC)

The Assam Industrial Development Corporation (AIDC) was established on 21st April, 1965, i.e., during the Third Plan. The main objective of this corporation is to accelerate the pace of industrial development in Assam. The AIDC, which is a State Government undertaking, is reported to be taking various steps for the promotion and development of large and medium scale industries in the state. The Assam Industrial Development Corporation has taken the following industrial Projects in the State: (a) Spinning mill, (b) Phthalic Anhydride Project, (c) Methanol Expansion Project (d) Expansion of Assam Gas Company etc. Construction work of some of these projects has already been started during the Seventh Plan. Works on the rest of these projects are now being taken during the Seventh and Eighth Plan. In the mean time, the area and the size of operation of AIDC has been enlarged to a large extent. The construction and installation works of some industrial Projects completed by this Corporation include-Assam Petro-chemicals Limited, Fertilchem Limited, Cachar Sugar Mill, Assam Syntex Limited etc.

### Assam Financial Corporation (AFC)

Assam Financial Corporation (AFC) was established in 19th April 1954 under the Central Act, viz., The State Financial Corporations Act, 1951. The basic objective of setting up of the corporation was to promoting and developing small scale and medium scale industries in the State with a special focus on spreading industrial culture in the rural, semi-urban and backward areas of the States. The corporation is owned by the Assam state government jointly with IDBI and is functioning under the administrative control of the state government. The major industrial sectors assisted by the Corporation include Industrial Metal Products, Coal and Petroleum Products, Chemical and Pharmaceutical Products, Printing, Publishing and Allied Products, Textile, Wood and Plywood, Paper Products, Furniture & Fixtures, Stone, Clay & Cement, Leather Products, Electrical & Electronic Products, Hotel Industry, Transport, Small Hospital and Nursing homes and different Handloom and cottage Industries. Besides, the corporation has been financing Tea Processing Industries from its very beginning.

### Problem Statement

In spite of some success and contribution towards industrial and economic growth of the state, the two corporations AIDC and AFC presently are facing

some major challenges due to which their performance shows a declining trend. To overcome the challenges and to perform satisfactorily by both the corporations for the industrial development, there is a need to study their investment pattern to the industrial sectors of the state.

### Objective of the study

The main objective of the present study is to analyse and evaluate the financial performance of both AIDC and AFC in order to know whether the corporations are successful enough to meet their responsibilities and giving necessary fill up to industrialization in Assam.

### Rationality of the study

The present study made to assess the liquidity, profitability and other indicators of the two public sector undertaking of Assam AIDC i.e. Assam Industrial Development Corporation and AFC i.e. Assam Financial Corporation. The analyses of the financial performance of these two select state public sector undertakings may contribute for providing suggestive measures for up gradation of all other state public sector enterprises of Assam. The sickness of public sector enterprises involves colossal loss of public exchequer. Besides that poor performances may reduce the efficiency in utilization of resources. So there is a need to examine the performances of these two enterprises for the economic development of the state.

### Research methodology

The present study is an analytical type of research. It is mainly based on secondary source of data. The researcher has collected the secondary data from the annual report of both AIDC and AFC, different books, magazines and different websites.

Statistical tools: In this study the statistical tools applied are mainly trend analysis and ratio analysis.

### Period of study

The study covers a period of 5 years from 2008-09 to 2012-13.

### Limitation of the study

The limitations of the study are:

1. The study is based on only two public sector enterprises of Assam as AIDC and AFC.
2. The secondary data used in the study has been taken from the published annual reports only.

### Analysis and Interpretation

The researcher has made the analysis of the study with the help of various accounting ratios and trend analysis. With the help of various accounting ratios any firm can assess the liquidity, solvency and profitability position effectively. The various analysis and interpretations of the study are as follows-

### Profitability measurement of AIDC and AFC

The following tables show the profitability of both AIDC and AFC during the period 2008-09 to 2012-13.

**Table 1**  
**Statement showing profitability of AIDC**

Rs. in cr.

Year	Income	Expenditure	Profit/Loss	Percentage of return on Expenditure
2008-09	9.08	39.90	(30.82)	(77.24)
2009-10	15.25	5.18	10.07	194.4
2010-11	12.00	7.72	4.28	55.44
2011-12	12.40	8.40	4.00	47.62
2012-13	8.69	15.84	(7.14)	(45.14)
Average	11.484	15.41	(3.92)	(25.47)

Source: Annual reports of AIDC from 2008-09 to 2012-13

The above table no. 1 shows the profitability and percentage of return on expenditure of AIDC during 2008-09 to 2012-13. It is observed that out of the five years, the corporation has suffered loss in two years i.e. 2008-09 and 2012-13. It is also noticed that there was a huge loss of Rs. 30.82(77.24% on expenditures) crores in the year 2008-09. While in the year 2009-10, there was a high return of 194.4% on expenditure but the profitability has decreased in 2010-11 and 2011-12. But in 2012-13 again there was a loss of 45.14% which reflects the overall operational inefficiency of the corporation. The average expenditure during the 5 years is higher than the average income that shows a loss of return on expenditure by 25.47%. Although it has earned profit in rest three years from 2009-10 to 2011-12, but the profitability is declining in these three years as a result there was an average loss of Rs. 3.92(i.e. 25.47% of expenditure) crores during this five years of the study period, which indicates the financial performance of AIDC is poor.

**Table 2**  
**Statement showing profitability of AFC**

Rs. in cr.

Year	Income	Expenditure	Profit/Loss	Percentage of return on Expenditure
2008-09	4.33	3.82	0.51	13.09
2009-10	5.38	4.00	1.38	34.50
2010-11	6.85	5.63	1.22	21.67
2011-12	5.86	4.77	1.09	22.85
2012-13	7.39	6.77	0.62	9.16
Average	5.962	4.998	0.964	19.29

Source: Annual Report of AFC from 2008-09 to 2012-13

In case of AFC, it has been observed that there was no loss in the period of the study, but the profitability is declining in the period 2009-10 to 2012-13. Though the net profit of AFC increased from Rs.51 lacs to 1.38 crores from 2008-09 to 2009-10, it was continuously reducing every year and in 2012-13 the net profit of AFC became 62lacs. The table 4.2 exhibits that in spite of having 34.5% return on expenditure in 2009-10, average profit of AFC was Rs.96lacs(i.e average 19.29% return) in the years 2008-09 to 2012-13. The above two tables indicate that the overall financial performance of AFC is better than AIDC, but the decreasing trend of return on expenditure (i.e. from 34.50% to 9.16%) do not signify the promising performance of AFC.

**Table 3**  
**Trend of income of AIDC**

Rs. in cr.

Particular	2008-09	2009-10	2010-11	2011-12	2012-13
Total income	9.08	15.24	11.99	12.39	8.689
Trend in %	100%	168%	132%	136%	96%

Source: Annual Reports of AIDC from 2008-09 to 2012-13

**Table 4**  
**Trend of income of AFC**

Rs. in cr.

Particular	2008-09	2009-10	2010-11	2011-12	2012-13
Total Income	5.20	4.95	7.53	5.20	7.39
Trend in %	100%	95.19%	145%	100%	142%

Source: Annual Reports of AFC from 2008-09 to 2012-13

It can be concluded from the above table no 3 and table no 4 that the trend of income of both AIDC and AFC showed a fluctuating trend. In case of AIDC, although the income had increased by 1.68 times from 2008-09 to 2012-13 but it dropped to 1.32 in the year 2010-11 and finally became 0.96 times in 2012-13. It is also observed that in case of AFC, the income dropped by 0.95 times in the year 2009-10 but it has risen by 1.45 times in the year 2010-11 and in 2012-13 it became 1.42 times. It can be understood that the income trend of AIDC is not much progressive as compared to AFC.

**Table 5**  
**Trend of Expenditure of AIDC**

Rs. in crores

Particular	2008-09	2009-10	2010-11	2011-12	2012-13
Total Expenditure	39.89	5.17	7.73	8.40	15.84
Trend in %	100%	13%	19%	21%	40%

Source: Annual Reports of AIDC during 2008-09 to 2012-13

**Table 6**  
**Trend of Expenditure of AFC**

Rs. in crores

Particular	2008-09	2009-10	2010-11	2011-12	2012-13
Total expenditure	3.81	3.92	5.63	4.77	6.76
Trend in %	100%	103%	148%	125%	177%

Source: Annual Reports of AFC from 2008-09 to 2012-13

Table 5 and 6 reveal that the trend of expenditures of both AIDC and AFC show an increasing trend. Although the trend of expenditure of AIDC is increasing but the corporation had succeeded in controlling their expenditure from 39.89 crores in 2008-09 to 5.17 crores in 2009-10. After 2009-10 the expenditure of AIDC again goes on increasing up to 40% in 2012-13. In case of AFC the expenditure increased from 1.03 times in 2009-10 to 1.77 times in 2012-13. It indicates that AFC has failed to control their expenditure. It can be concluded that AIDC has control on their expenditure in spite of their loss but AFC has failed to control expenditure in spite of their continuous profit.

**Table 7**  
**Return on Investment of AIDC and AFC**

year	AIDC	Growth rate of AIDC	AFC	growth rate of AFC
2008-09	-33%	-	14%	100%
2009-10	6%	100%	8%	57%
2010-11	2%	33%	6%	43%
2011-12	6%	100%	4%	29%
2012-13	-16%	-267%	1%	7%

Source: Annual reports of AIDC and AFC from 2008-09 to 2012-13.

Table 7 shows the profitability position of the two corporations through the return on investment ratio. From the above table it is clear that in the year of 2008-09 and 2012-13 AIDC shows a negative return on investment. The growth rate of AIDC is fluctuating from the year of 2009-10 to 2012-13. While the growth rate of return on investment in case of AFC is consistently decreasing throughout the five years.

To know the short term and long term solvency position the following ratios have been used.

**Table 8**  
**Solvency Ratio of AIDC and AFC**

Year	AIDC	Growth rate of AIDC	AFC	growth rate of AFC
2008-09	0.57	100%	0.08	100%
2009-10	0.30	53%	0.44	550%
2010-11	0.31	54%	0.50	625%
2011-12	0.55	96%	0.41	513%
2012-13	0.65	114%	0.70	875%

Source: Annual reports of AIDC and AFC from 2008-09 to 2012-13.

Table no. 8 shows the solvency ratio which indicates the solvency position of AIDC and AFC. In case of AIDC the solvency position shows fluctuating trend. But in case of AFC the growth rate of solvency ratio is almost increasing. It shows a high solvency position.

**Table 9**  
**Debt-Equity ratio of AIDC and AFC**

Year	AIDC	Growth rate of AIDC	AFC	growth rate of AFC
2008-09	0.15	100%	0	0
2009-10	0.42	280%	0.66	100%
2010-11	0.42	280%	0.66	100%
2011-12	0.34	226%	0.54	82%
2012-13	1.13	753%	2.03	308%

Source: Annual reports of AIDC and AFC from 2008-09 to 2012-13.

Table- 9 analyses the long term solvency of both the corporations through debt-equity ratio. The Debt-equity ratio of both the corporations AIDC and AFC shows an increasing growth rate. Although in the year of 2008-09 the debt-equity ratio shows 0, as there was no debt shown by AFC in the balance sheet. In the year of 2012-13 debt-equity ratio shows higher in both the corporations.

**Table 10**  
**Proprietary to equity ratio of AIDC and AFC**

Year	AIDC	Growth rate of AIDC	AFC	growth rate of AFC
2008-09	0.35	100%	0.92	100%
2009-10	0.61	174%	0.56	61%
2010-11	0.58	165%	0.50	54%
2011-12	0.28	80%	0.59	64%
2012-13	0.22	63%	0.30	33%

Source: Annual reports of AIDC and AFC from 2008-09 to 2012-13.

From the above table no. 10 which shows the proprietary to equity ratio, it is clear that proprietary to equity ratio is fluctuating in case of AIDC where as in case of AFC it is almost decreasing every year. It reveals that both the corporations are not able to maintain a stable solvency position.

For evaluating financial performance, liquidity status is pivotal which may affect the operational flow of the entity. The liquidity position and growth rate of both the corporation are as follow.

**Table 11**  
**Current ratio of AIDC and AFC**

Year	AIDC	Growth rate of AIDC	AFC	growth rate of AFC
2008-09	5.49	100%	9.70	100%
2009-10	7.09	129%	9.32	96%
2010-11	5.46	99%	3.21	33%
2011-12	1.41	26%	5.77	59%
2012-13	1.73	32%	6.09	63%

Source: Annual reports of AIDC and AFC from 2008-09 to 2012-13.

Table no. 11 shows the current ratio and the growth rate of both the corporations. The current ratio which indicates the short term solvency shows a declining growth rate of both the corporations. Although, the current ratios of both the corporations are above standard except in 2011-12 and 2012-13 where the ratios are below the acceptable standard i.e. 2:1. It is clear that both the corporations are unable to maintain a healthy short term solvency position.

#### Findings of the study

From the above analyses and interpretation the researcher has pointed out various weak spots in the financial and operational performance of both the corporations AIDC and AFC. Following are some of the major findings noted.

1. There is no consistency in format of financial statement followed by both the corporations.
2. The profitability position of both the corporation is not much progressive. The growth rate of return on investment of AFC is decreasing every year. In case of AIDC growth rate became negative in 2012-13.
3. The solvency position of both the corporations is very much fluctuating which indicates that both the corporations may suffer to meet their long term liabilities in the near future.
4. The short term solvency position is also not good in case of both the corporations as the current ratio shows declining trend in every year.
5. AFC did not have any long term debt in 2008-09, but at present the amount of the long term debt is more than two times of the amount of equity capital.

#### Recommendation

The following are some of the recommendations made from the present study

1. It is found that profitability of both AIDC and AFC is not progressive and AIDC shows loss during the years 2008-09 and 2012-13. They should improve their operational mechanism for economizing of the costs.
2. Both the corporations should improve their solvency position by improving their equity capital base.
3. The Government intervention is acute need for reforming the financial and operational health of the AIDC and AFC.

#### Conclusion

It can be concluded that both the corporations under study are not so much sound in their operational activity and financial performance. The long term funds with adequate proportion of equity capital needs to be enhanced in order to acquire more fixed assets in both the corporations. For financial reform there is need of revising the accounting reporting practice as per the guidance of accounting standards.

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